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OVERVIEW OF CHINESE CHAIN CATERING MARKET

Thesis

CENTRAL OSTROBOTHNIA UNIVERSITY OF APPLIED SCIENCES

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ABSTRACT

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Supervisor Ossi Päiväläinen. Principal Lecturer. Industrial Management, Sirpa Soukka. KTM.		
<p>This thesis is a market overview for chain catering business situation in China. Chinese chain catering market is developing rapidly in recent years, it is a business where everybody can become a customer, but the business is highly competitive.</p> <p>The subject of this thesis is to give an overview of the market situation and strategies for market expansion of Chinese chain catering industry.</p> <p>It contains knowledge of chain management and introduction of Chinese chain catering market filled with Chinese food culture, Chinese customer behavior and current market situation, strategies and notices of market entry for foreign company and chain catering business operation, challenges of market growth and strategy of market expansion.</p> <p>It was done through the facts and data from variety reports combined with the my personal thoughts and inspirations through related news, reports and articles.</p>		

Key words

Chinese, chain catering, customer behavior, food culture, franchising, market condition, market entering, market expansion, strategy

INTRODUCTION

Chain catering is a business type of running a catering business. It differs from other independent restaurants by running many stores sharing the same brand, menu and business culture in many places. The stores are more or less the same like being copy and pasted in many locations. The products of the chain catering business can be from bread, ice cream, coffee to buffet, fast food or any kind of food and dishes.

For the first chapter as chain catering business, there are contents about what is a chain store and its different business types, why chain stores are used for catering, how is the chain catering situation nowadays in China and how it developed in the past. Chapter 1 gives basic information about chain catering and chain catering in China.

Market view in chapter 2 discusses Chinese cultural chain catering market with Chinese food culture and customer behavior, famous brands' introduction and comparison in the market catalogued into international brands and local Chinese brands, Chinese customer segmentation for chain catering and out dining habits of Chinese people, and market entry issues for foreign business. From this chapter, readers are informed about what are the special things of Chinese market and how they are dealing with these differences in the market.

Chapter 3 provides some of the strategies for market growth according to Chinese chain catering market situation and customer. Strategies and hints of chain catering business operations, challenges of market growth and strategy of market expansion for existing companies will be given in this chapter.

This thesis was done through opinions given and data from reports and articles about chain catering business in China combined with my personal thoughts and inspirations through related news, reports and articles. I hope the readers will get a concept of Chinese chain catering business market and ideas of market expansion after reading.

1. CHAIN CATERING BUSINESS

1.1. Introduction

In this chapter, information about chain catering developing history in China is given and an analysis concerning the current situation along with the remaining profitable space of the business and political factors in China is drawn up.

Three typical management types of running a chain business are introduced along with the analysis about advantages and disadvantages of each of them.

1.2. Developing History

1.2.1. Beginning

Chain catering business started first at the mid 19th century in the USA, during the 80's of the 20th century chain operations are generated in the Chinese society and the first KFC chain store appears in Beijing in 1987. The culture of chain catering business is introduced to people. (Dong 2011.)

1.2.2. Development

For nearly a decade, its development took place in middle-sized and large cities and special economic zones along the sea coast. Meanwhile the economic situation is improved in China, and imported brands producing fast foods like KFC and

McDonalds are getting popular among the new generations. At this time period, the chain catering business is rapidly growing and since there is less competition in the market, the chains are making a strong and unique brand image in the society by advertising, products, services, and chain business operational methods.

1.2.3. Present situation

In the 21st century, China enters the global world, and everybody realizes that there are good opportunities for this business as it has grown so fast in the last ten years. People are trying to get their own business started, there are more and more chain stores appearing on the streets, and the products are no longer just fast foods, there are cafes, normal restaurants and restaurants famous for doing special dishes based on the local dining culture. Not as during the previous stage, this time the market is competitive and people are trying to find their positions in both the domestic market and the international market. (Duan 2011.)

1.3. The Political situation

China has been doing its best to reach a totally free market for years and nowadays the results of it have shown up: the free trade, free economic environment and increasing figures of commerce.

The report "12th Five-Year" period to promote the scientific development of the catering industry guidance which is published by China's ministry of commerce shows that the government is trying to keep up a 16% increase rate annually during the 5 years period between 2011-2015, and reach 3.7 trillion Yuan by the year of 2015. (China's ministry of Commerce 2011.)

For the industry of chain catering, China will focus on developing common catering, especially the breakfast industry and chain catering will develop to be the major part of the whole catering industry.

For the financing part, the government supports the qualified companies' with series of bank loans for company financing, and special subsidies for SME's for their future growth.

Also for the legislation part, the government tries to complement the local catering industry laws and set up a fully comprehensive law system to standardize the chain catering business operations.

1.4. Profitability situation

TABLE 1. Chain Catering Development in China (modified from National Bureau of Statistics of China)

	Total (including Franchising and Regular Chain)					
Year	2008	2007	2006	2005	2004	2003
Total store (a)	12561	10973	11360	9748	6968	6127
Turnover(million)	8069057	6447306	5519352	4543567	1387321	1205950

Table 1 is a chart showing the total store numbers of chain catering in China and their turnover development situation from 2003 to 2008.

From the data chart above, from 2003-2008, the store number has doubled while the turnover is about 6 times of that in the beginning. This means the stores founded in the previous years are now gaining more and more profit, the market is growing and the profit is more than at the beginning of that store. This shows the profit

situation of the chain catering business. Also it shows that the location of the store is important in this business, because number of stores is not increasing as much as the turnover does.

China is known for its rich amount of materials and as a big Agrarian Nation, the price of agricultural products and food is low, so when doing chain catering business, the most part of money is spent in the placement and logistics of supply chain. This can be seen as a way to have more profit if a company can have the method of lower the cost and time needed for logistics.

1.5. The Management system

“Franchising, in its simplest terms, is a more complex program or system of licensing. Franchising most often involves a system of marketing and distribution for the provision of services and/or the supply of goods in accordance with established standards and practices of the trademark owner, which furnishes a well-established trademark and brand image, expertise, training, stability, and marketing know-how. In return, the trademark owner/franchisor obtains new sources of expansion capital, new distribution markets, and self-motivated vendors of its products or service. It can therefore penetrate new markets more quickly. (American Bar Association 2001, 65.)”

Based on the current chain market franchising model, the management system of a chain catering company can be catalogued into three big types, i.e direct chain, franchising chain and voluntary chain. Among these three models, franchising chain is the most common one, but each and every of them has its advantages and disadvantages in managing chain business. They can be combined or only one of them in used. A company should make its strategy and decisions carefully based on the market situation and company target market.

1.5.1. Regular Chain

Regular chain is the chain store directly operated by the company, the mother company invests to the store and controls the operations of the store, arranges the connections between stores. The management execution of regular chains is centralized by the mother company or the headquarter established by the mother company. (Grolier Incorporated 2001.) According to my opinion, its advantages and disadvantages can be described as following:

Advantages

The regular chain is more efficient for financing, supply, human resource and strategy operations, convenient for training and new technology's application to the business, more efficient for managing the information flow and logistics. The regular chain is good in expressing the company image as a whole and expresses the advantage of the mother company.

Disadvantages

High requirement on the financing part are faced. Huge capital is needed and the development speed is restricted by the mode of the business, also when the company is centralized. When it grows bigger, the management cost and the mistakes occur between different levels of the management structure. Also when the chain stores are managed by the mother company, the people are less creative and less motivated.

Some of the famous companies like Starbucks, McDonald and KFC are using mainly regular chains combined with franchising chains in China.

1.5.2. Franchising Chain

Franchising chain refers to a variety of peoples joined into the mother company and using its technique, suppliers, management system, and brand image to open their own chain under the mother company's name. A company which provides franchising opportunities will provides the equipment, employee trainings, technique of production, location selecting and decoration style of the chain store to correspond with the other chain stores. (Nixon Peabody LLP 2005.) According to my opinions, its advantages and disadvantages can be described as following:

Advantages

This saving investor's time of building up the business on their own and increasing the possibility of success. The profit returns faster, and when having problems, the mother company will help, which will help the investor who doesn't have any experience of doing business.

Also, the mother companies will always develop new products with the money they get from chain stores and based on the plan of future operating strategy, financing, promotion activities, the investor who franchised a chain store can put all the efforts into sales and making more profit.

Disadvantages

Monitored and restricted from expansions by the mother company, a certain level of franchising fee will need to be paid to the mother company every year.

Subway, McDonalds, Pizza Hut, Xiao Feiyang, Malan Noodles are running this type of business.

1.5.3. Voluntary Chain

Voluntary chain is an operator who is willing to pay a certain amount of franchise fee for tuition by the mother company and open the chain store based on the mother company's management methods. The profit situation is not related to the mother company. (People's Daily Online 2012.) According to my opinions, its advantages and disadvantages can be described as following:

Advantages

The profit is mostly acquired by the operator and doesn't need to be shared with the mother company. Not every requirement from the mother company needs to be considered, the relation are not close between the chain store and the mother company, and the chain has the freedom of its self-development.

Disadvantages

While the chain operator is not taking all of the commands from the mother company, the mother company also lacks concern of the chain store, the quality of the products and services not often exactly matches the standard, the whole management of the chain store is done by the operator.

This type of management system is normally used in small Chinese catering businesses that are willing to be known to the public or lack capital funds for the business.

1.6. Advantages of Chain store

A multiple store in Europe is also called chain store in America. "S.E. Thomas has defined the multiple shops as a system under which there are a large number of retail shops owned by the same proprietor which are scattered over various places of a particular city of a country and are engaged in the same line of activity." (Vieceli & Valos 1998, 331.)

So a chain-store is one of a group of shops, located in different places, but sharing the same brand and standard business management method. When the number of shops is increasing, the owner can purchase at a lower price so the customer can get it cheaper. (Wilkins 1968, 59.)

For my point of view, there are three big advantages of running a chain business:

First, there is a cost advantage about chain stores. The chain stores as a whole can do purchasing together, processing and logistic together; all of these can save a huge amount of cost in operation expenses.

Second, compared to an independent restaurant in the market, the chain store has capital advantage, too. By charging the franchising fee at the beginning and annually percentage of its chain stores profit, the company can use all these revenues to grow and develop easier than independent stores.

The third advantage of the chain store is the marketing advantage, because all of the chain stores are sharing the same brand, when doing promotion and marketing, the company can have a strong power to improve brand image, which is beneficial for each and every store. Also stores cooperation with good marketing strategies provides the company with more market shares and it has more profit from the market.

Also I think there are advantages in the human resources, information network resources and management development advantages. When the chain stores management is centralized, the resources of different chains are also centralized to the headquarter, which provides a real-time and abundant advantages of the resources for mother company to utilize, so that the chain stores can develop in a better way as well.

1.7. Conclusion

Developing an independent restaurant into a chain catering business is a thing with a lot of benefit and fits the market trend. A well-organized chain restaurant with a well-known brand culture is a way to become successful. Doing chain catering in China market is a business with a long run profit prospect. China market is now open for chain catering business and there are blank spaces that need to be filled in with more companies. The market for the next five years is full of opportunities to enter and expand on.

2. MARKET VIEW

2.1. Introduction

This chapter presents famous brands in current market, both foreign brands and local brands, food safety problems in China and Chinese culture related to chain catering market. Then there will be market information about customer groups, possibilities of market growth and entry strategy for foreign business. The aim of this chapter is introduce of basic ideas about chain catering business in China.

2.2. Chinese culture

Culture is defined as “personality of society- it is defined as continuously evolving totality of learned and shared experiences of life that give meaning to rituals, norms, traditions, nuances, languages, symbols and common values amongst the members of an organization and society.” (Paul 2008, 100.)

There are two important elements included in a culture. First is called “tool kit” by Ann Swidler, which includes values, tales, and key symbols. They exist in cultural products such as movies, religious performances and works of literature.

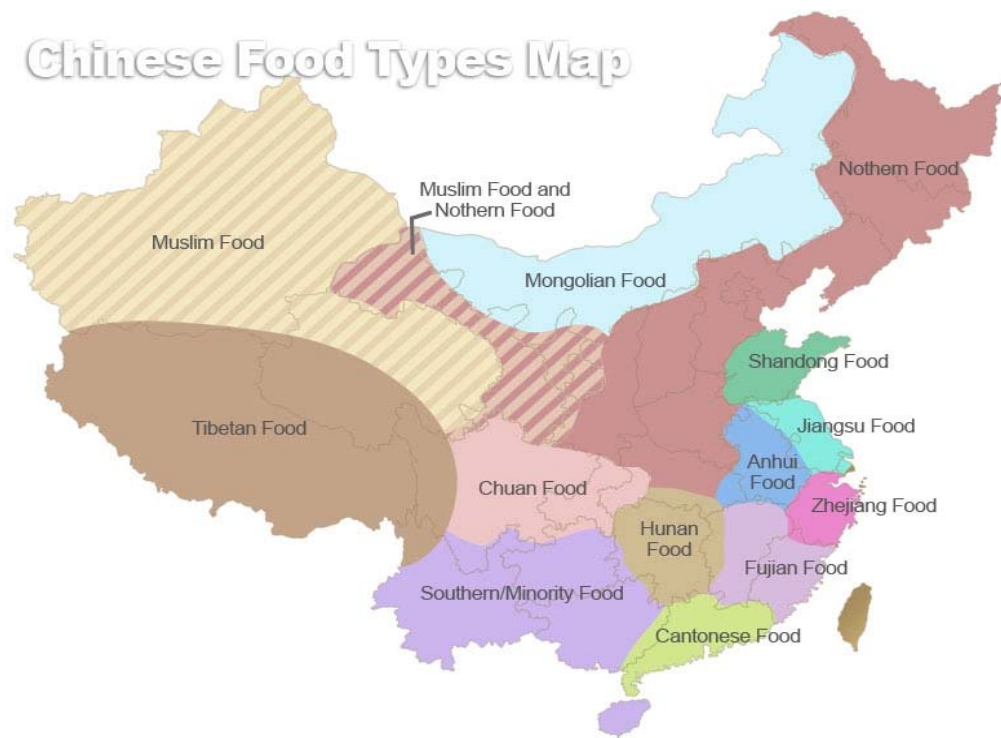
The second type is called “perceptual controls” by Mary Douglas. It’s written on the page 10 of the book that this part of culture “consists of people’s implicit, commonsense understandings about what determines individual actions, what constitutes individuals, and what controls individuals’ anti-social impulses.” (Derné 1995)

Culture doesn't exist on a national level only, but also a certain group of people's culture, such as company culture, regional culture, sexual culture or race culture. "For marketers, the main focus on cultural studies should be how elements of culture impact upon the thought, attitude, behaviours and experiences of consumers (Morgan & Summers 2005, 53)." This tells us that the "perceptual controls" is the thing what the marketers need to know when doing a market analysis in acknowledging the culture of a market. Here we will talk about the typical food culture in China and customer behaviour in chain catering market under the culture influence.

2.2.1. Food Culture

Eight Majority Regional Cuisines

Chinese way of cooking and taste preventatives can be divided by different geographical areas, here is a map shows different regional cuisines totally about 14 types in mainland China. Eight of them are major regional cuisines used by normal people in daily life, which shows the variability of Chinese food culture and is an advantage of catering business. It is also a disadvantage of attracting customer from different geographical areas when running a chain catering business.



GRAPH 1. Chinese Regional Cuisines Map (adapted from China Highlights 2012)

“Chinese cuisine is not a general and vague concept. It attaches great importance to the color, smell and taste of the food, its myriad regional styles and flavors and its profound cultural underpinnings (Chen 2005, 7).” These different tastes are formed because of different customs due to the geographic, ethnic issues and weather differences.

The eight cuisines are:

- Sichuan cuisine with numb spicy taste, it's the most heavy taste cuisine among all eight cuisines, which is a good and attractive taste but not really accepted by all areas.
- Cantonese cuisine is with light and a bit of sweet taste, this type has a lots of soup with high medical values and very good for the human body, the Chinese people believe that soup can make the nutrition well combined and absorbed by the body in a gentle way.
- Shandong cuisine is famous of its good use of garlic and green garlic, most types of dishes are cooked from rice flour normally and famous as for what they are.

- Fujian cuisine is a sweet and sour taste, has a huge amount of dishes of seafood and this is because of its geographical position, so some of the famous Fujian dishes cannot be cooked well in inland area due to the freshness of the seafood.
- Jiangsu cuisine is the original flavor with a decent taste, it focuses on keeping the materials intact and delicate, what materials are in the dish should be able to tell from the final dish easily.
- Hunan cuisine is also a spicy flavor but fragrantly spicy and with a bit of sourness which is not very acceptable in some areas where the taste is light and sweet.
- Anhui cuisine is using ham very often, also as to sweetness it is not as strong as Zhejiang cuisine, instead of that sweeteners Anhui cuisine prefers the sweetness comes from the material itself more.
- Zhejiang cuisine's characteristic is the sweet from sugar and the food is fresh and tender, not overcooked with lots of spices as Sichuan and Hunan cuisines. There are other ways of division as well. They can be detailed into ten or twelve cuisines, or classified into four types, too.

Besides these cuisines, there are also hundreds of cooking techniques for all the cuisines and selecting materials, cutting technique, heat control, seasoning, cooking methods and dish forming. Some techniques can only be used and specialized for one or several cuisines while some of them can be used in any cuisine for Chinese dishes with strong symbolic cultural factors inside, and some are just basic cooking techniques. (Wu, Zhang & Dai 2009.)

According to my point of view, all these cuisines make Chinese catering market very big and variable, due to the acceptance of differentiations between areas, chain catering business menu is very hard to define, which is also a reason why fast food business has such a high market share on the market, because people in all areas have a higher acceptance of fast food and during the production processes of fast food there are not so many special cooking techniques needed as a regional dish does. All these characteristics make for a low entry requirement for fast food in

catering business and higher possibilities to grow into a chain catering business in the future development.

Food as medicine treatment

“Relying on daily diet to improve physique and health and to fight illness is at the heart of Chinese food culture. Compared with medicine, food is gentler to the body.” (Liu 2011, 84.)

The Chinese believe that every kind of food has its own nutrition inside and treat them as medication. By using a proper cooking method to keep the nutrition from losing and making an effective combination of different kinds of food materials you can achieve a certain treatment of a illnesses.

2.2.2. Customer Behavior

Youth Market

China’s one child policy is an unique fact worldwide. It is policy was executed after 1980 to decrease Chinese population and control it under 1.2 billion at the end of 20 century. At the beginning it was a suggestion that a couple who have only one child (including adoption) in their family will have priorities and benefits from government and their work placement, because at that time, most of the organizations and workplace are owned by the Chinese government. (Wang 2009.)

But when the policy came out to the public, it turned into a compulsory policy that every couple should comply and the priority disappeared with the benefits. Instead of that, there will be the punishment from government and workplace if a family has more than one child (not including twins). People will lose their jobs and being marked, no other organizations willing to offer a position for these people, so most of

parents had abortions instead of being pregnant under a huge pressure from society, work placement and relatives, the same as to the child in its future.

Nowadays social phenomenal in China makes the youth market as the biggest market share due to the young generations their own purchasing behaviors and the parents purchasing behaviors for satisfying their children.

Parents are spoiling their only child, providing anything they want and giving them money to buy what they want to have. Many young people are still living with their parents after they are university students or even already have worked for a few years. Both resulting from parents' will and the children's incompetency due to the over spoiling during their childhood, the young are getting used to having what they want from others rather than working by themselves. (Backman & Butter 2007, 332.)

Branding culture in China

"Brand is defined as any sign that can be represented graphically and that is used by persons for the purpose of distinguishing their products from those of other (Muhlberg 2005, 1)." Brand can be treated as a promise from a company to a consumer, an expectation from the consumer, a loyalty relationship between a company and a consumer, it also can be seen as a lifestyle provided by the company to its customers. a reason to choose by the customers. Therefore a brand is a distinguishing sign, an insurance and a guarantee to customers from the company. (Muhlberg 2005.)

Chinese people love brands (see Chapter 3.4.4). People who live in bigger cities love branded products more. In Chinese culture, to not to loose face is an important thing for showing respect to when countering that person, which means that he will not be embarrassed nor ignored. Instead of that, that person will be helped and praised a lot. Somebody is even willing to open a "back door" for him.

The “face” founds on the relationship between people and represents it in the public. An analysis of a brand shows that the most important thing a customer is concerned about the brand is its emotional affinity, the second one is the brand’s popularity.

In China, people regard other people’s thinking as importantly as their own opinions and feelings and respect it. Customers are willing to have some brands which can give more face to themselves when they go out to the public instead of being concerned of the product itself. The brand that can win in this competition must have a well-known popularity with a fine reputation and a “good looking” price (Hollis 2010, 91.)

This customer purchasing behavior provides a good future to high-end market in China and explains one of the reasons why expensive imported chain catering brands have more market share than local brands with more than a hundred years of history along with a more Chinese oriented taste.

Of course it wasn’t like this in the old China before it opened its door to the world. There is a changing period in Chinese society. When back in 1990s, customers are more focused on price rather than brands, quality and other issues, now in the 21st century, more and more products appear on the market with not so different prices, so people began to consider product quality, fashion issues, brands popularity factors when they decide which one to purchase. And when time goes, by Chinese economy grows, there are more options to choose in the market and when high-end products go into Chinese market, people are stilling keeping the brand thinking and quality. Price is getting less important when compared to how a brand influences Chinese people. (Hollis 2010, 93)

All of this historic influences nowadays Chinese customers’ purchasing behavior. When looking at Chinese market, there is a strong feeling that every company wants its brand to stand out from all the others. Not many products in the market are totally focused on the old generations, but a few nutrition products and medical products

are. The major of Chinese market is people around 20 to 30 years old who purchase the most amount both in money and number.

2.3. Foreign Brands

There are not so many foreign brands in China for chain catering, but very many of them are taking a huge market share of the business they are doing and are well-known in Chinese society by the public.

Since the business idea of chain catering was invented in America and KFC was the first brand that brought this idea to China in 1987, KFC kept remaining its position at the first on the list of Top 10 Chinese chain catering for more than 20 years from then. Also McDonalds, who entered in 1990 and became to the biggest competitor for fast food chain catering industry in China with KFC is taking the position on the second chair of the list. (AlixPartner, LLP 2010.)

Besides those two big chain stores almost taking all of the market share in fast food and Dico's on the third chair, there are also brands such as for example Pizza Hut, UBC.Coffee from Taiwan , Starbucks, Costa Coffee, Yoshinoya, DQ, Haagen-Daze acting well in different food markets.

Most of the foreign brands like these are high-end products in Chinese market with high price of the product and a much better service provided than Chinese chain stores. In a way, they are matching Chinese customers' needs not only on the food products but provides a reason for them to choose to come inside the shop at the first place.

From my observation, these brands are well-known in China, but none of them is making traditional Chinese food, their products are mostly the most popular foods in their home country. They do what they are good at and turn their food more into Chinese peoples' taste for attracting customers.

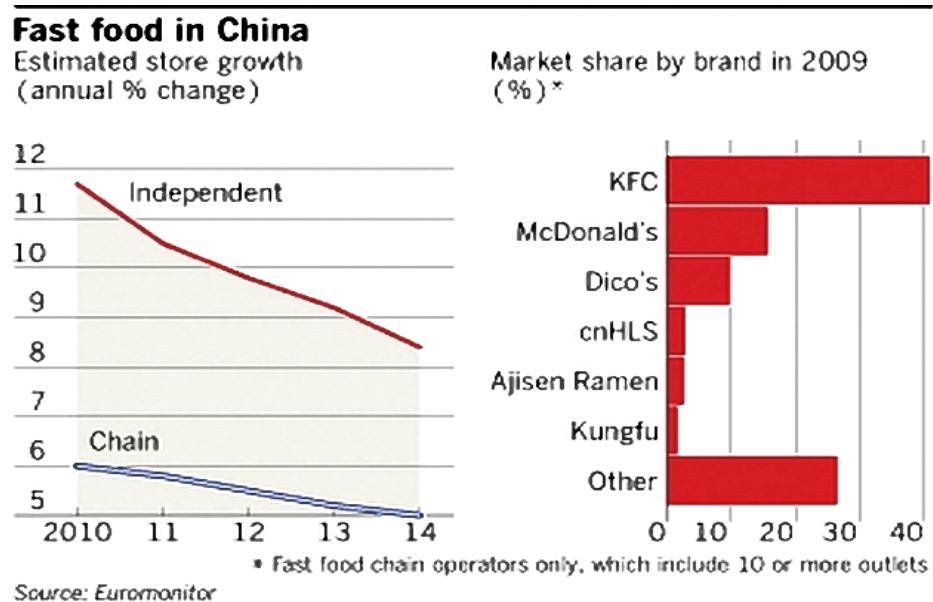
When KFC first enter the market, its products were not variable and culturally related like nowadays. They were selling normal fried chickens, hamburgers and normal ice-cream. After being in China for years, they improved their strategy to produce something that is related to Chinese original food and changed the sauces into more adoptable by Chinese people.

From then on, ice cream with different flavors occurred, hamburgers with minced fish meat appeared and old Peking spring roll came out in KFC's menu. Now they are doing well in selling soybean milk, porridges, deep-fried dough sticks which are traditional food for breakfast with strong cultural characteristics, typical Chinese fast food box lunch and so on. These are products that will never be found on a menu of American KFC chain store, not even Hong Kong KFC or Taiwan KFC which are not located in mainland China, these are the products designed only for the market of mainland China. It is a successful strategy for reaching customer groups together with sales volume.

"A logo is the single graphic design application that will be a part of every other brand design application. A logo is a unique identifying symbol. Stemming from the word logotype, "logo" is the most commonly accepted term, it is also called a symbol, mark, brandmark, identifier, logotype or trademark. Providing immediate recognition, a logo represents and embodies everything a brand, group, or individual signifies (Landa 2010, 247)." A logo is an important part for promoting branding of a company, a good logo is a sign easily to remember and an expression of company culture (see Chapter 2.2).

All of the imported famous chain catering brands have a common characteristic, their logos. Every one of them have a special and simple logo for customers to remember and easy to recognize, which brought a strong brand image to the customer about their products and services.

Here is a graph showing an estimation of fast food industry growth in China:



GRAPH 2. Fast Food in China (adapted from Euromonitor 2009.)

The graph on the left hand side tells the store growth trend both for independent stores and chain store with estimation, while the one on the right side shows the market shares of some of the brands in the market in 2009.

From the graph, we can see the estimated growth for fast food in China is decreasing, the chain store numbers are getting lower, although the total store growth is not as so big as independent stores do, but the decreasing rate is much lower than independent stores have.

The decrease of chain stores like KFC and McDonald's doesn't mean their market share will drop down but because of their rapid growing in China these years in my opinion. You can find a lot of their chain stores everywhere on the street in any cities and their products' profit gross margin are higher than Chinese local traditional food products. But it is a warning for these fast food chains' operation in the future. They are going to need a new strategy for their fast food market in China, which matures everyday and develops a new market for their businesses.

2.4. Chinese Brands

TABLE 2. Top 10 brands in China catering business, 2010 (modified from AlixPartner, LLP 2010, 14.)

No.	Brand	Type	Market Share	Numbers of Chain store
1	KFC	Fast food	1.2%	>2,000
2	McDonalds	Fast food	0.5%	>1,000
3	Dico's	Fast food	0.3%	>1,000
4	Xiao feiyang	Hot pot	0.2%	>400
5	Xiao weiyang	Fast food	0.2%	~600
6	Pizza Hut	Lesuire	0.2%	~300
7	UBC. Coffee	Fast food	0.2%	~500
8	Xiao tian'e	Fast food	0.1%	~300
9	Xiao tudou	Fast food	0.1%	~300
10	Malan Noddles	Fast food	0.1%	~300

Among these 10 top chain brands, No.4, 5, 8, 9, 10 are mainland Chinese brands, they are taking a half of the list and they are all doing different kinds of fast food.

It's obvious to see that in chain catering market, fast food is a type of catering that earns the most and easiest to grow. Rather than making dish orders in a normal restaurant, people prefer to be fast and shorten the waiting time.

Hot pot is a traditional Chinese type of food. Nowadays it can also be found in a similar advanced type in Japan and South Korea. It's a simmering pot in the middle

of a table with different flavored sauces and spices boiling inside the pot with water. Around the pot there are all kinds of ingredients customer wants to order, seafood, all kinds of vegetables, sliced meat, and fish and so on. When the ingredients are fully boiled in the pot, people can pick them out and eat with or without dipping sauce. (Wu 2009.)

Here is a typical picture for Hotpot in restaurant:



GRAPH 3. Hotpot (adapted from Zhu 2007.)

It can be seen from the graph there is a round table allows many people to eat at together, and the pot in the middle of the table being divided into two parts, the milky white part is without spicy taste and the red part is of course very spicy. This kind of design meets different customer needs and provide convenience situation for group of friends to eat here. The dishes around the pot on the table are meats and vegetables. They can be ordered according to customer need, normally the store will provide all kinds of sliced meat and vegetables with green leaves, potato slices and mushrooms, etc. some of the store will provide seafood as well like shrimps and seaweed, also there will be typical Chinese food for example tofu, silk noodles, etc. Unlike the sauces in the simmering pot, the dipping sauce is prepared for each

customer as the two bowls shown in the left down corner in the graph outside of the round table. People will use public used chopsticks which might be longer and bigger than the normal individual ones or tongs for putting ingredients into the pot and use the chopstick or a strainer to pick out the ingredients from the pot to their own bowls.

This type of food doesn't have a requirement as to customer number, in a hot pot restaurant there is always one pot on each table and customer only need to choose the ingredients based on their eating volume, so there is no chef or technique required. All of the things are controlled by the customer him/her selves and the only secret in a hot pot restaurant is the sauces they put inside the pot. So it's a niche market compare to all of the fast food restaurants and a traditional business but easy to organize, which also is the reason why hot pot is getting more and more popular in catering business in China nowadays. It's a type of business with a strong Chinese cultural element that can be distinguished easily from western fast food on the market.

The data of market share shows in the table above that, KFC is taking 1.2% of the market share of chain catering market. Even if we put all five local brands' market share summed up together, it's only 0.7% of the market, which is totally not comparable with western fast food market share.

Also from my point of view since KFC is the one who brought the chain catering business into China and local brands have not been around for many years. It can be seen that Chinese brands are having a potential advantage in the market of developing traditional Chinese food and arousing customers' Chinese stomach.

2.5. Comparison

TABLE 3. Sales turnover and Growth rate comparison of Chinese Chain Caterings leaders and USA Chain caterings leaders in Chinese market in 2009 (modified from AlixPartner 2010, 16)

Comparison of Chinese and USA chain catering leader companies in China. 2009					
Chinese chain catering leaders			USA chain catering leaders		
Company	Sales (million RMB)	Growth rate	Company	Sales (million RMB)	Growth rate
Da Jia Le	4,674	9.1%	McDonalds	162,112	-3.3%
Wei Qian	1,986	18.7%	KFC	76,287	-4.1%
Xiao Feiyang	1,579	23.5%	Starbucks	70,989	-5.9%
Da Kuai Huo	1,466	2.2%	Darden	48,407	8.9%
Quan Ju De	1,204	8.3%	Brinker	27,926	-14.5%
Xiang'e Qing	738	20.6%	OSI	27,816	NA
HongKong Catering Management Limited	328	-7.2%	Jackin the Box	17,363	-2.7%
XinJiang BaiHuaCun	64	62.8%	Burger King	17,277	3.4%
			Wendy's Arby's	16,691	-2.2%
			Cracker Barrel	16,254	-0.7%

This table shows the growth of USA companies in China are getting more and more limited and the China's companies are growing rapidly. But although it grows so fast, the sales revenue is still much more lower than that of the US companies. In my

opinion, the reasons causing this are things like capital funds of the company, market entry time, products they are selling, service they are providing, organization management methods and strategies, and so on.

I believe that a foreign brand like KFC and McDonalds have a bigger budget for the market and have unique products with attractive specialties to avoid competition from traditional Chinese food market, and during their years in China, they have promoted well so their brand images so that all of Chinese know who they are. Chinese brands are so many and without a particular speciality and only known by a certain group of customers. The fact that there are less franchising chain stores being developed and less brand popularity forms a bad cycle for future development.

I think for Chinese fast food business, a lot of people started it from a following point of view. They try to become a big chain but they are only following the outside of the foreign brands in the market. The internal management is not organized so well. How they can plant more chain stores? What is the company's culture? What strategy should be used according to the current market situation along with the human resource management? The systematic way of managing is a lack in their business that has harmed their developments.

Comparison of Fast Food chain catering business

Fast food catering is a major business in chain catering business (see Table 3 in Chapter 3.2), and the fast food catering industry is almost totally taken care of by foreign brands in China. Nowadays a lot of Chinese fast food business are waking up and trying to grow their market share to be as competitive as some of the leaders in the market.

When stepping into 21st century, everybody has become a business man, Chinese people are also thinking of opening a business for selling fast food. The market of fast food is so big and profitable, chain catering has over a million stores already

nowadays. Chinese Ministry of Commerce esteems China's fast food industry has a bigger market size than dinner industry. Guangzhou province has 90% of the total market for fast food, Liaoning province, Shandong province, Peking and Shanghai are have above half of the total market of catering. (China's ministry of commerce 2011.)

But even though it is a so huge market and Chinese fast food is taking almost 80 percent of the whole, the average sales turnover is still low, not even reaching 0.63% of McDonalds's sales and none of them has opened many outlets as McDonald has. (see Table 3)

In my opinion, Chinese local brands are running more locally than foreign brands. For many Chinese brands, the biggest cover area is a city, a province or a geographical area of China. Due to the characteristic of different cuisines in food culture (see Chapter 2.2.1), nobody grows into a nationwide brand. Of couse, the capital of the firm is a problem, another problem can be the food. Since it's fast food, it won't have so many specialties as a dinner from a restaurant does, the aim of having a fast food is because it's fast and easy to buy from anywhere. For Chinese dishes, a bad use of different cuisine varieties can grow into a disadvantage of running business. A new brand doesn't become as popular as a well grown, mature local brand from your own city which might offer what the locals like the most, and a new brand needs to be put a lot of effort into to be competitive. From menu design and the customer brand loyalty point of view it is not an easy thing for most of Chinese companies both from money and management view point.

2.6. Food Safety

Food safety refers to a series standards and disciplines of preventing food borne illness from the food dealing processes. (Satin 2008.)

"Food standards exist at the national, local and enterprise levels. They are managed at the government level by a national commission on the management of standards,

with the co-operation of the Ministries of Health, Agriculture and the National Administration for the Quality Supervision, Inspection and Quarantine (AQSIQ). Quite a few standards in China are below international levels (Organisation for Economic Co-operation and Development 2005, 216).”

Food standards was being developed to eliminated the barriers of food trade between different countries at the beginning.(Rees & Watson 2000, 3) So when China became a member of World Trade Organization (WTO), the country has changed the emphasis from quantity to safety of food, which required at the field level to produce safer food for export also benefit the domestic market. Some of the certification of food standard used in China are Hazard Analysis, Critical Control Point (HACCP), ISO 22000, ISO 9000 series (International Standards Organization) and Green Food Certification. (Organisation for Economic Co-operation and Development 2005)

In China food market, food safety problem is a big issue. There are typical three kinds of food borne illness, natural toxins, contaminated food and chemical toxics (U.S. Department of Health & Human Services) .

Natural toxics occur in bad food handling process, for example not well handled puffer fish and not fully cooked green beans. They are the food that are naturally poisonous. If people want to eat them, they will need to be handled in a right standard way, otherwise they will cause illness or even death. Several green beans mass poisoning accidents have occurred in China already especially for students and work people who eat in their dining hall.

Contaminated food in China mainly refers to inferior oil, oil that is not being used for the first time for eating purpose or not healthy enough to eat because of its extract resources. It's mainly used in the street food and hot pot restaurant. The most hazard us part of this oil is the Afatoxins. It is a strong carcinogenic that is 100 times more poisonous than white arsenic. When people intake this type of oil for long time, there will be inflammation symptoms and organ lesions occur. (Chongqing Evening News 2010.) The reason of its existence is because of the low cost and high profit.

The profit of every ton of inferior oil for kitchen garbage processing business is nearly 2000 Yuan; the profit margin is nearly 200%. (China National Radio 2010)

Chemical toxins are a big problem in Chinese catering and food production market. It is not like inferior oil that can be precluded if people don't go out to eat. Chemical toxins can be added to the food even from the very beginning of a food chain. Pork contains "Clenbuterol", KFC's food contains tony red in their chili powder and bean sprout contains "Carbamide". These are the chemical things that are not proper for human beings' intake and harmful to human health, but because they have been added already when they feed pigs and grow the bean sprouts, they exist already even in supermarket products. The customers can never find out about this by themselves.

Also fast food industry has food safety problem in the products they are making. In his article Dr. Daniel Kalish from San Francisco shows that American fast foods like hamburgers and french-fries can cause hormone "Leptin" changes, so that people who eat too much junk foods are not able to control their food intake volume later on, and may become addicted and that causes people to become over fat. (Kalish 2011.)

For my point of view, there are three reasons for this kind of food safety situation in China. The supervision and control management from related departments are not enough nor duplicated which causes that no one will take the responsibility. The public lack scientific knowledge of food safety problems for how food should be cooked. For the foods over deadline there are no available tests. The holes in Chinese law leave parts of food safety uncovered and causes the immoral manufacturers bring these unhealthy issues to the customers.

It can be seen that during these years, people concentrate on monitoring food safety problems. More and more articles, news and the media talks about food safety issues. People care about the quality of the food they are taking every single day and trying to find out more through all kinds of media. Chinese government is also implementing policies focused on food safety issues in the food and catering market

and trying to put them back on the track and get connected with the worldwide standards.

But I still think, the business ethics need to be kept in the minds of people who are related to and involved with a business, especially when doing business that is related to human health and illness. Everyone in the supply chain of food processing needs to be more ethical and conscientious of their customers and the public.

2.7. Customer Segmentation

Aside from the special situation of the youth market in China (see chapter 2.2.2), the average age of this country is 35.5 years old, which is a number smaller than in most of European countries and the US. (The World Factbook 2012.) This figure tells us that most of the people in China belong to middle-aged group. It is a group of people who have the main purchasing power of this country and they are the customers who need catering business the most because they have roles as parents, colleagues, children, friends and lovers in their lives. These are the people who would want to and might need to eat outside very often for on family, business and friendship occasions.

When this customer group grows, the total customer number for catering will grow as well, so that chain catering business will have a bigger income because of the increasing numbers of middle-aged customers.

Based on the research done in 2009 by CCFA (China Chain store & Franchise Association) and Shanghai Sudong Marketing Inc., a survey analysis of customer between 15-44 years old, we can see there are four types of customer group.

- Group A is mainly male between 30-44 years old who prefer simply homemade foods. Their eating habit is focused on simple and fast food, this group takes 31% of the total.
- Group B is female group between 30-44 years olds focused on healthy eating habits and loving cooking by themselves, which takes 25% of the amount.

- Group C is the young generation between 20-29 years olds, willing to have tasty food in good quality and special dishes, totally taking 22%.
- Group D is the customer age between 15-29 years olds who prefer to eat outside with friends and more interested in the quantity of the food, this group is also 22% of total. (China Chain store & Franchise Association 2009.)

"Based on the research did by Institute for Nutrition and Food Safety of the Chinese Center for Disease Control and Prevention in Guangzhou, Shanghai, Jinan, Ha'er bin and several other cities, 2/3 of the citizen have eaten in a western fast food restaurant, over 90% of children have had western fast food, and 20% of them went to a fast food restaurant once or twice per month. Most of children went on holidays and 1/3 of choose to have birthday in a western fast food restaurant." (Liu 2007.)

Among teenagers, I believe that western fast foods are popular because of western-worship psychology exists in most of the mordern Chinese. It especially influences the teenagers and children because they touch more western culture than the old generations during the time they grow-up and they are easier to be influenced than the adults because of the young age. In these western fast food restaurants' target markets, teenagers with uncontrollable consumption temptations are their target customers for promotion and marketing. Also addiction for the food because of the Leptin in the fast foods and the addiction factors about the entertainment facilities and services such as child meal with tools along with gifts for children are all attractive reasons for children and teenagers to put western fast food in the first position of their favorites.

2.8. Possibilities for market growth

Chinese GDP growth

"The economy is measured by GDP (Gross Domestic Product). GDP is defined as the total market value of all final goods and services produced in a country (in a

given year) equal to the total consumer, investment and government spending, plus the value of exports minus the value of imports. ” (Murphy 2011.)

China' GDP kept growing 7-11 percent each year in the last 30 years since 1997 (Chinability 2011.), and Chinese government is adjusting the bank interest rate during these years.

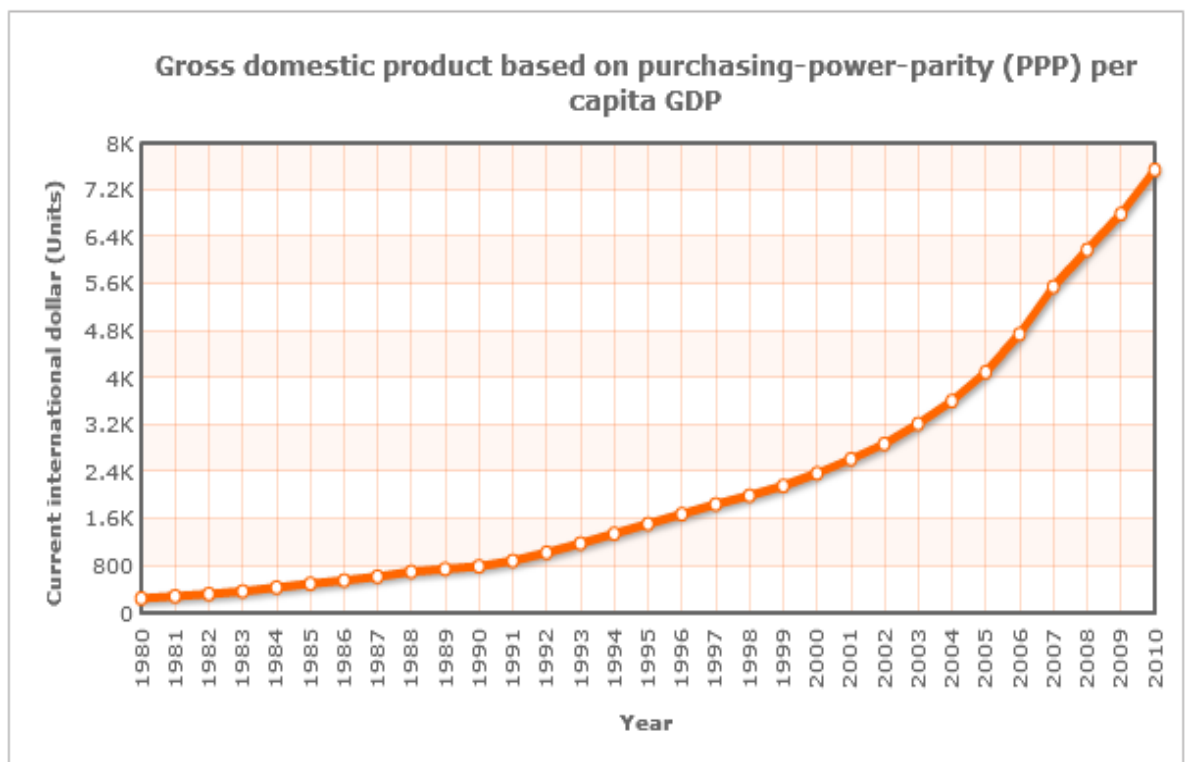


GRAPH 4. Chinese Gross Domestic Product figures (data adapted from World Bank)

GDP represents not only the economic situation but also the national power of a country. For global view, GDP shows a nation's developing situation, nations can be divided into developed countries and developing countries according to a higher and a lower GDP value. Although a GDP figure is a reflection of the macro economy of a country, it can't show all of the details of a nation's developing problems, but a rapidly increasing GDP still can be treated as a sign for developing and growth of Chinese society.

Chinese purchasing power growth

“Purchasing power parity (PPP), the measure most economists prefer to use to compare living conditions or use of resources across countries, values all goods and services produced in a country at price prevailing in the United States.” (Hollis 2010, 85.) And the graph GDP-PPP per capita means “the GDP on a PPP basis divided by population as for 1 July for the same year.” (The world Factbook 2012), which means this graph shows the average purchasing power parity of a single Chinese person.



GRAPH 5. Chinese GDP based on PPP per capital (adapted from IMF 2011.)

As the data from the graphs above shows, there is an absolutely increasing trend of Chinese economy and people's buying ability is growing. GDP defines people's consumption ability, the growing population creates the growing market on this point, and since people cannot live without food, the more market the more demands. The business market in China will be full of opportunities.

China's globalization, culture issues

The cultural trend is that Chinese people are more concentrated on having a more tasty food to eat. People are willing to pay high price or go far to get the food they want to eat. (see also Chapter 2.2)

Also the growing up young generations who are being affected by the western cultures are more into the culture habit of dining outside. Especially the lunch of normal working class is taking a big part of the out dining market. (Shi 2011.)

From the data shown in AlixPartner's 2010 annual report we can see that Chinese people are spending 22% of their food money on out-dining activities and the chain catering is only taking 8% of the whole China catering market for now. The rate keeps growing faster every year, so there are great chances for chain catering to develop for more and more market shares. (AlixPartner 2010.)

Also since the Top100 catering business rating in 2000 shows that 41 out of those100 restaurants are chain catering businesses and they take 58.8% of the turnover in total, the future of chain catering in China will be bright and attractive. (Zhan 2000)

2.9. Entry strategy

Entry strategy of foreign business into China market

"Market entry is defined as the first entry of an enterprise into a foreign market. " And "Market entry strategies are referred to the action plan required to achieve certain goals such as successfully utilizing own capabilities and resources in foreign markets as well as considering various business conditions appropriately. "(Drabner 2003, 3.)

To my way of thinking, the first important thing is to choose a management system of the business for entering the market. A good and suitable system works well both for market entry and market expansion. There are normally three ways of entering, direct exporting, indirect exporting or production in the target market. Here, for the chain catering business, a company can make direct investment to build up a Chinese subsidiary, licensing a local Chinese company for Chinese market or found a joint venture with a local company. They are all good methods of getting familiar with the market and lower the risk of the business.

For example, KFC and McDonalds are providing almost the same type of food. While KFC has more market than McDonalds has and both are doing franchising in China market. Because of the slight differences in operations, KFC is winning more in China market. KFC's franchising takes place after a chain store has grown into a mature chain. Then the franchising starts, the applicant can take over the store and continue the business, while McDonalds' franchising starts from the very beginning. The mother company will help you choose the location and all the technique and equipment will be given to the applicant.

Also the management system can always be change follow to the trends of the market. (see chapter 1.5) A regular chain can be a main chain in charge of several franchising chains or the regular chain can exist in the same level of franchising chains, so it is with the voluntary chains and any other combination made from three management systems that can be adjust according to the current market needs. For example when Starbucks first entry China market, it is doing franchising chains, but till the midterm of its growth, it is recalling it's franchising rights and nowadays it decides to develop into a regular chain management system although it will not make expansion as fast as the franchising did. However, because of the company is trying to put the quality into the first position of its target, regular chain is the best way to achieve it and easy to be controlled. (Su 2009.)

So when entering the market, I think the first thing to do is to analyze the business you are about to do whether it is it a fast food chain catering, cafe chain catering, ice cream chain catering or a French dish chain catering and what are the targets.

“Business analysis is the set of tasks, knowledge and techniques required to identify business needs and determine solutions to business problems. Solutions often include a systems development component, but may also consist of process improvement or organizational change (Hass 2007, 11).” And focus should be put on the current market target of the business, i.e if it’s the quality or expansion speed. Then comes the second important issue of the entering, the location of the chain.

Every year there are thousands of the chain catering business failing because of the bad location, including local brands and imported brands. On this point Starbucks, DQ and KFC are doing a great job.

Starbucks believed the environment of the business can help the cafe, so when you step into a fabulous mall, you can always find a Starbucks on the first or second floor or in the nearby neighborhood.

The American ice cream brand DQ, prefers to locate the shop in the center of a crowded place like a university, an airport, a train station or a busy mall.

When KFC chooses the location, it will choose only the mature business district. Based on the location of the business district in the city, they will calculate the customer flow. And for lower the payment of the building or rent, they will choose a place that everybody will need to pass when going to the business district instead of the center of the business district, so it is common to see a KFC located near a bus stop or on the way connecting the business district and bus stops.

And of course before choosing the locations within a city, the problems such as in which cities the chain stores should be located need to be solved. Is the target market a city, a province, a geographical area or the whole China? What will help lowering the cost and time of supply chain and increase the profit of the business.

Then there are some other things when a foreign business is trying to enter the Chinese market. They are your business analysis result and suitable strategy of entry. If the organizing systems should be remain the same or be special for China

market? What are the suitable combinations of management systems for Chinese market? What would be the best timing of entry? How is the business operation scale of the chain store in your business plan? What about the patterns of the brand and products? Is there enough protections of the products from their possible substitutes? What kind of brand image the company want to build up in the market, etc. Market entry should be done after a series of careful analysis and researches for preventing avoidable failures. (Technomic Asia 2006, 21.)

2.10. Entry Threats and risk

Threats of entering a new market

There are always lots of threats when doing business in a new market, especially a immature market in a developing country can provide a lot of chances together with a lot of risks and threats.

For the market entrance of small companies who don't have enough huge capital funds and are not familiar with the market, most of them would prefer to enter in an indirect way by cooperation with some other company (see also Chapter 1.5.2). The cooperators who knows the market will help you to make important decisions, which brings the risk of intellectual property and management of the company. For a small company to control a partner who might be stronger, there is a control problem about how to balance the relationship between partner company and our small company in case of being cheated and eaten by the cooperator, and what is the proper way of communication so that both sides will be satisfied and well-organized. In this case, a third party will be needed for monitoring both of the them and have all the steps go smoothly in a good cooperation atmosphere. (Drabner 2003.)

Risks and threats for directly entering companies are mostly with the market and operation problems. A company which chooses a direct enter strategy needs an office or subsidiary in the target market, and the communication and operations between the headquarter and the subsidiary can be a threat to the business if they

aren't being organized well. "The regional or area headquarters of a multinational company are an administrative branch which principally acts as a supervision, communication and coordination center for the subsidiaries, branches or affiliates of a multinational company. Headquarters don't do business or earn incomes from the host country, neither doing business directly with the clients like a branch or subsidiary. (USA International Business Publications 2008, 252)"

To enter a market directly requires a mass of information to know about the market, everything and every decision needs to be made by the headquarters, so the corrective and efficient communication is a very important thing. This is in addition to the training of employees, law issues, management executions, market trends and all the things related with the supply chain of the products. An experienced local team will be helpful to hire for the new subsidiary. This means people who can provide opinions and build up routes for everything a new business needs. This is a great way for knowing the market and to save time and money from testing and failure. (Johnson 2011.)

Competition with local brands

"In Asia, big market share brands are the kings of their 'brand world,' and consumers in Asia believe in them implicitly. Being big automatically promotes trust. This trust, combined with harmony and conformance needs of collectivistic cultures, leads to high brand loyalty. Consequently, it will be difficult for new entrants in these markets to gain market share." (Mooij 2010, 350.)

There are threats for the new entrants to competitive with the brands which are already existing in the market with a high brand credibility among the customers or their products are more catering to customer needs because of their knowledge and experience of the market. A brand with a high brand credibility is an important reason for its high brand loyalty from the customers. It is not easy for new entrants to be competitive by both its product popularity and company brand image.

Cultural Barriers and legal risk

Since China is a large country with a long history, 56 ethnic groups of Chinese people have their own culture diversity plus the time of history (Yang, An & Turner 2008, 20). Chinese market is a complex market which needs a lot of pre-analysis before running the business. Cultural problems are highlighted to a must that must be solved. The cultural barrier can be a fortune or a disaster (see also Chapter 2.2.1).

Also, I think Chinese language is also an advantage for foreign company doing business in China. Through language, people can see the culture. Knowing a bit of Chinese language not only provides a reliable image to your partner company, but also acts as a protection from business risks caused by language barriers.

When doing business in China, the Chinese legal system is also a very important thing needed to be paid attention to. The barriers between communism and capitalism brought different ways of managing countries, which reflects on the national law and the whole legal system. Before starting the business, it's very necessary to have a professional lawyer or cooperate with a legal consulting firm for knowing what should be done and what cannot be done.

Foreign Exchange risk

Currency exchange is a type of financial risk, it can also be called "foreign exchange risk". The definition of it is "The risk a business house confronts while entering into exports and imports contracts due to exchange rate fluctuations is known as currency risk or foreign exchange risk." (Sasidharan & Valasek 1983, 562.)

Foreign exchange risk exists in every international business, a good management of currency risk can keep a company away from losing money and save money from exchange operations and possible cost cuttings.

2.11. Conclusion

Chinese market is a unique place with its own features and diversity of cultural levels up the difficulties of doing business in China. But chain catering business market is an attractive market with a lot of possibilities to enter and grow in. Doing chain catering business in China needs not only a good product but also a product with specialty and a good brand reputation. For business market in China, young generations are the main purchasing power of the society. Setting a correct target market with a most suitable entry strategy can add more points for the future development of the business.

3. STRATEGY FOR FUTURE MARKET GROWTH

3.1. Introduction

Everyone who runs a business would like it to make profit and have a bigger market share than the others. In this chapter, there will be presented market descriptions and challenges they need to face to gain a market share for running chain catering business. Also there will be some opinions given on what kind of strategies are useful and suitable for Chinese chain catering market.

3.2. Present market trends

From the data shown in the following table, we can see fast food is the one branch that has the most stores and business revenue, while the restaurant is having the most number of main stores and operating area. But by comparing the revenue with the store number, we can see the restaurant is having more profit per unit than a fast food store and restaurants are having more main stores management system than franchising, which is opposite to fast food chain catering.

Beside the meals, there are other type of catering like Chinese tea, cafés, ice cream, sweets and so on. But their market is not as big as the market of meals no matter if it's restaurant or fast food. Among these fast food chain stores, foreign brands are taking a much higher percentage of the market than Chinese local brands. Also for drinks, there are much more profit and market share for café shop than tea shop. This can be seen as a developing opportunity and something to learn from.

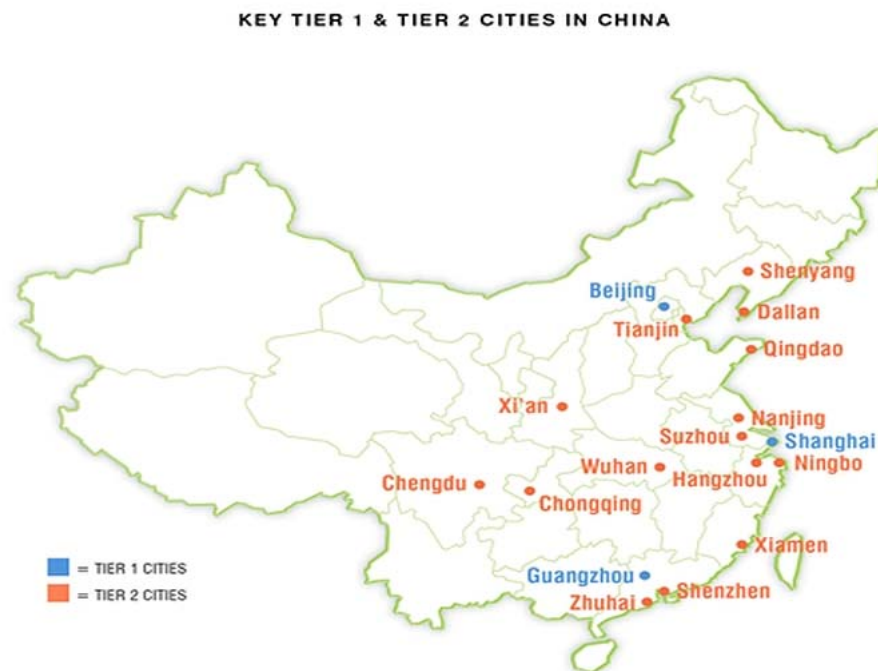
TABLE 4. Basic Conditions of Chain Catering Enterprises by Business Categories in 2009. (modified from China Statistical Yearbook 2010)

Item	Number of Main Stores (unit)	Number of Stores (unit)	Engaged Persons at Year-end (10 000 persons)	Operating Area of Catering Enterprises at Year-end (10 000 sq.m)	Business Revenue (100 million yuan)
Total	426	13739	65.18	691.55	879.32
By Business Categories					
Restaurant	232	4291	27.94	380.35	329.73
Fast Food	160	7189	29.37	227.88	454.60
Tea Shop	1	5	0.01	0.25	0.26
Cafe	10	708	1.43	28.62	14.97
Others	23	1546	6.43	54.46	79.75

There is also such a phenomenon on the market, that the business are going more and more to second and third tier cities, the GDP of these cities are increasing. Since the market in first tier cities are getting mature and less opportunities remain to the business who have just started. Meanwhile, China is focusing on balancing the differences between rich and poor, second and third tier cities have a much lower cost of food material to rent of the shop, more and more people are considering and gaining a market share start from these less developed cities instead of getting into a market with huge competition of first tier cities. (Wang 2010.)

“Tier is a classification of cities for marketing and administrative purpose.” (Chee & West 2007, 8.) “Based on the population, average income development of services

and infrastructure and cosmopolitan nature of the cities in China (Binkowicz 2010.)”, they can be divided into different tiers. Here is a graph showing the key tier cities from tier 1 and tier 2 in China:



GRAPH 6. Key Tier 1 & Tier 2 Cities in China (adapted from Opportunity in China's Tier 2 Cities 2010.)

As the graph shows, Beijing, Shanghai, Guangzhou are the tier 1 cities, but not only these three cities. It is the same with the amount of cities for tier 2. In 2007 year of China, tier 1 cities are Beijing, Shanghai, Guangzhou and Shenzhen; tier 2 cities are the 24 next bigger cities in China, 9 more cities than shown in the graph and tier 3 cities refer to other smaller cities. (Chee & West 2007, 8.)

China is getting more and more international, the market is opening day by day, people are willing to try new things and are curious about different thing. All these are chances for market and business. The market of chain catering lacks specialized products with their own features. Instead of being everywhere the same, the market and the products should be more colorful and attractive, so that the

customers won't feel like they are just having a meal for hunger but for enjoyment and feeling life. (see also Chapter 2)

3.3. Challenge for market growth

Rising Price in China

Based on the report CCFA published on 2009 about Chinese chain catering business, there are problems like lack of human resources. The cost of the business is getting higher and higher. Data in a article from Cable News Network money(CNN money) says that "According to the National Bureau of Statistics report, the prices Chinese consumers pay for goods and services rose 6.2% in August 2011. Chinese food prices in August went up by 13.4% year-over-year, with meat and poultry prices being the main driver-up 29.3%. Non-food inflation was up 3%, its highest level ever recorded, said Chi Sun, an economist with Nomura (Censky 2011)." It's easy to see that food price is growing in a rapid speed which brings serious difficulties of cost control for operating chain catering business.

And there are difficulties for standardize the chain stores, unmoral competitions, short age of capital funds and political issues and so on. Among them, the most serious problems limiting the growth of the business are human resource, increasing cost and difficulties of standardization. (China Chain store & Franchise Association 2009)

Human Resource Challenge

Human resources challenge refers to qualified personnel like chefs, waiters and managers. According to the survey of 2011/2012, the average annual income in China is 88,340 CNY (14,000 USD), while the salary for waiter/waitress is 10,000 CNY (1,584 USD) per year. Although the total income has increased it is not very efficient due to the rising price in China.(Average Salary Survey 2012.)

According to my point of view, nowadays many companies are hiring people from rural areas because of the low salary situation for the waiters and not so many educated people in urban areas are willing to become waiters. This action, however, costs a training fee and these employees have high mobility toward for higher salaries, so it will cost a certain amount of money for the company and then the worker goes to some other working place which provides higher salaries. This process produces a waste and a loss to the business. How should the company keep these trained people and save the waste for further investment on market expansion or improve techniques is a servious topic.

And I think it is the same problem with the talent-losing problem as for chef of the chains. When it's a restaurant cooking Chinese food, it places higher requirements on the chef. When the chain stores grow more and more, there will be chef needed for every one of them, for keeping the food taste and make it the same in every chains. Training is always required on the list. To train a chef, it takes more time and money than a waiter for sure, so the loss of a chef will be much more bigger.

As for the problem of lacking managers, I think it is a special problem for chain catering business. Since chain stores are not only one, the connections and management are always at the top things. Having a qualified talent for manager is a benefit for the company, meanwhile if the manager is not qualified enough, the loss he brings to the company will be direct and big, not to mention if there are too many unqualified managers.

The problem of increasing cost mentioned above happens in every kind of business in China. I think this is a problem that can directly influence the profit of a business and causes a series of problems limiting its growth. The inflation in China these years is getting higher, price of the products especially food materials are almost 1/3 more than it was before. Although the end products of the restaurant will sell at a higher price as well, the fixed costs and other costs appearing in the supply chain are all getting higher which will lower the profit and make the chain catering business a business with little profit.

Standardization of Chain Stores

Standardization is giving a unit of reference to an object that a task should achieve, a guidelines for management, standardization is a necessary and important step in improving the process and work more efficient. (Plenkiewicz 2010.)

The standardization problem (see also Chapter 3.4.1) is a reason why some of the companies in chain catering business area can't grow bigger or go global. When the manufacturing processes are too many and too complicated, the technique will be difficult to study and spread out. This is also the reason why so many restaurants are doing very well and special dishes but can only be seen in a city or several areas. (Wang 2009.)

3.4. Possible strategy for market growth

3.4.1. Organization Management

A systematic and efficient way of managing the business is a prerequisite for growing a healthy market. A company should focus on simply their production and standardize (see also Chapter 3.3) their products. To improve the organizing of a company you also need to develop enterprise culture for motivating employees and spreading the brand out for public understanding.

Organization standardization is needed in every parts of business, including franchising process, interior decorating process and style, recruitment and training procedure, regular management standard, service standard and locating selections. Production standards covers the size, weight, shape of raw materials, time needed for each of the cooking techniques, taste and flavor remains no difference together with correct divisions of labor work to each process for keeping efficiency. (Yang 2005.)

Enterprise culture (see also Chapter 2.2) is an important thing if the company wants to have a clear brand image, remain in customers' memory, and motivate all its employees. A good enterprise culture can influence people's values and spirit of working in this company. A strong company must have a strong enterprise culture as rules and standards telling people what they should do and what they will get. It is similar with the customers: A well-defined and executed enterprise culture is represented by service and products can bring a credibility and a certainty to customers about what they are expecting.

3.4.2. Market Expansion

Market Expansion can be accomplished in two ways, by expanding the business by taking over the others business together with their market share and by developing own market for more customers.

Expanding Business

Business expansion for chain catering business can be done in four ways. All of them can be used by a single strategy and they are also suitable for combination. (Lang 2006.)

For companies with big financial support, they can choose to grow by founding more regular stores or by merging with and acquisition of someone else's business. To grow regular chains are good for company's monitoring and control of the business and having a clear idea of the whole concept, while to merge and acquire other business is the fastest way to grow and the easiest way to take market share from the original business. Both of these two methods need a huge amount of capital and a good management and control system is a necessary thing to achieve the target.

For companies who are not capable of carrying out the two methods above because of financial status, management system or some other reasons, there are two other

good ways to expand their business scales, franchising (see Chapter 1.5.2) and cooperative ventures. “In international business, the term of cooperative venture is often used merely to signify some alternative to a hundred percent equity ownership of a foreign affiliate: it may indicate a joint venture, an industrial collaboration agreement, licensing, franchising, subcontracting or even management contract or countertrade agreement (Contractor& Lorange 2002, 31).”

For franchising, a company can complement its capital for further business operations. When more and more franchisor came into the business and more chain stores appear on the street, it's like a free of cost marketing for the customers also because all of them belong to the mother company. It's a way costing the least to expand the business scale of a company with not so much money but with a good and attractive product which can let the franchisors come and invest in the business.

Cooperation with another company is not so popular between different chains in the catering businesses, but it will work well if it is a cooperation connected with a part of the supply chain, for example purchasing cooperation for lower price and higher efficiency, price alliance, service alliance, coupon alliance or promotion cooperation with some bigger shopping malls or mobile phone or electronic devices promotion activities.

Developing Customer Group

As the economic growth and life style change in modern China, the out-dining habit is becoming an everyday and necessary thing with colleagues, friends and families, the number of out-dining people in Beijing has increased by 10% from 2010 to 2011(Chinese Consumer Network 2012.), and the new types of business attract more and more customers.

For example, as I noted the home-delivery services and group buying activities have risen up rapidly in recent years. Group buying is a new type of promotion operation of recent years. Mostly done in a form of internet purchasing via websites or mobile

phone software. It's a discount service provided by the seller on the condition of a minimum number of deals would be done by the customers. It's a purchasing method benefitting both the sellers and the buyers. With an attractive low price, more customers will come to buy the products and the seller will end with a better profit margin than doing regular sales and reduces the costs of expenses for example inventory and depreciations of the products.

Also I know there are several big websites doing this kind of connection between sellers and buyers, for example Groupon, Yahoo and lots of Chinese local websites. From these websites, a customer can buy not only products but also services; their selling products can be from travelling ticket to restaurant discount, from clothes to electronic devices, from massage to aerobic classes in gyms. All kinds of things that people need in daily life can be found at a cheaper price through group buying method.

Nowadays the customers themselves are also doing their own group purchasing, which I have participated in personally for several times. Through the webpage of a product, people can collect group of partners who are also interested in the product and negotiate the price with the seller to get a discount and buy the products together at a lower price. This is a very common way used in buffet catering among all of the catering business. If this method can be used in chain catering, and the discounts can be used in all of the chain stores, I believe it will be a very attractive marketing strategy.

From personal opinions and experience, I think these are the two typical and efficient methods for developing customer group for the white collars' working lunch, boarding school students' meals, food for friends meeting on holidays and business meals. When KFC (see also Chapter 2.3) started their home-delivery service about 4 years ago and recent years' discount promotion of free delivery when the purchasing price reaches a certain level, it's obvious to see from my surroundings that groups of people are making phone orders or online orders to have it for lunch. So in conclusion, it can be say that the more convenience the seller provides to the customer, the more customer groups can be developed.

3.4.3. Innovation Management

Business needs to be improved and updated all the time to follow the market trends. Creativity is also a very important thing for running a restaurant in a market that is so competitive.

For innovation on chain catering business, the way of running the business can be innovated to be more colorful, convenient and interesting. Products can be innovated toward more Chinese flavors and catering to customer needs, techniques related with food products can be innovated to be more fresh along with a healthier cooking method, food safety management of the business should be ethical and healthy from the beginning to the end. (see also Chapter 2.5)

More and more Chinese are willing to eat healthier in recent years (see also Chapter 2.6), they want the food to be healthy, clean and nutritious. A healthy food has less oil and spices used while it's cooked and the materials are fresh and clean even with less calories for the purpose of preventing fatness. And the customer wants the product has a delicious taste meanwhile they remain healthy, this should be the goal of future catering businesses need to achieve.

Also the service part is a huge part that should be improved in chain catering business. Since there are always a lot of customers coming and going in the restaurant everyday due to the big amount of Chinese population, the customer flow can be considered big and difficult to provide service to. The waiters might be not efficient enough or not have enough patience when they communicate with customers, but from the customer point of view, they only come once and ask for a few services from the waiters, they are not getting tired of the huge customer flow everyday. So the conflicts may occur and lower the brand image of the restaurant. How to lower the number of complaints but heighten the efficiency of the service is an important thing for gaining brand reputation and market share.

As a part of innovation of services (see Chapter 2.2.2), additional facilities and helpful services need to be improved and added so that more customer needs can be satisfied. Offering better service is to have a advantage among the competitors and provide a reason why customers should choose our restaurant. Additional facilities and services can be for example: childrens' play-yard, free WI-FI covers the restaurant, atmosphere of the restaurant during festivals, free parking lots for customers and other humanized services can provides a good mood and convenience to the customers who come here and spend their money. This is a way to keep the customers and attract new customers and let them consider that it is worth to spend the money and time here for both the services and products.

3.4.4. Brand Marketing

Word-of-mouth marketing strategy (WOMM)

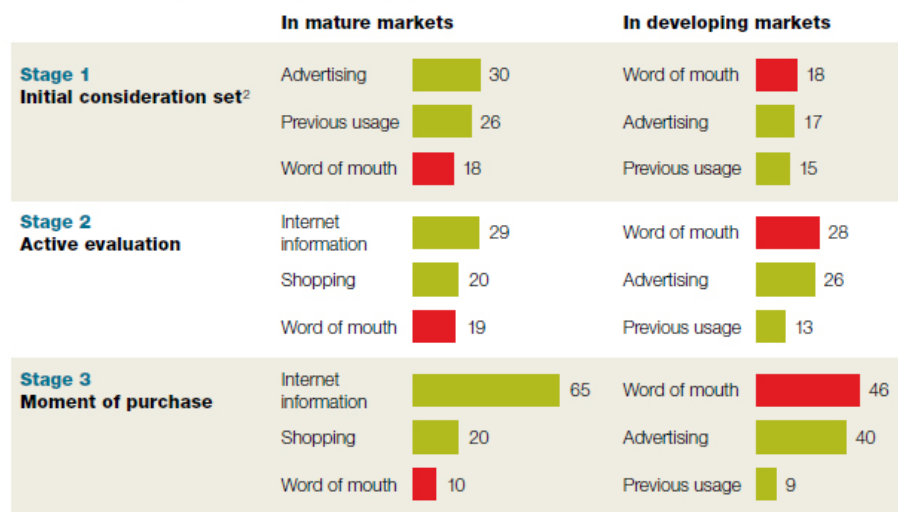
In an article called "The power of Word-of-Mouth in China" written by Max Magni and Yuval Atsmon, two consultants working in McKinsey & Company's on Harvard Business Review say that in China, the most efficient and powerful marketing method is the words coming out from people's mouths.

Here is a graph from the report of WOMM edited by McKinsey firm shows the three steps of a consumer making his choice. It is divided into two conditions: mature markets and developing marktes. No doubt that China is a developing market, so it is with the chain catering market. In the developing market catalogue, we can see there are three factors considered in all three stages: word-of-mouth, advertising and previous usage. It means that in developing markets, a consumer will think of these top three factors when he makes a decision whether to buy a product or not. And it's obvious that word-of-mouth is always the factor most people consider in all three stages, especially on the third stage, which is a very important last stage in decision making of a consumer. It shows that word- of -month has the most influence to a buying decision by winning 6% of advertising and 37% of previous usage.

Exhibit 1

Where it counts

Top 3 factors that influence whether a product is considered at each stage of the consumer decision journey, mobile-phone example, %¹



¹Figures do not sum to 100%, because percentages for several other factors are not shown.

²Excludes consumers who were contacted by provider to extend contract after expiration.

GRAPH 7. Word-of-Mouth influence to the three stages of consumer decision journey. (adapted from McKinsey 2010.)

This graph shows that in developing markets like the Chinese market, the word-of-mouth is the top factor influences consumer purchasing behaviour, which is different from mature markets where the internet information is the top factor.

From the article it says “Physical or virtual, word-of-mouth is an essential brand-building tool for companies in China.” And 6% of the Chinese customers admit that friends and relatives are the main source where they get the information and 66% of the customers would like to consider what their friends and relatives say when making a purchasing decision. (Magni & Atsmon 2010.)

One reason why word-of mouth is so important to influencing customer decision is because of the “face” culture in China mentioned above in the customer behavior chapter (see chapter 2.2). Most of Chinese people are willing to buy a products by evaluating what this product can bring them for their image in the public relationships, so when everybody in a group around him talks about how good the product is, they will feel willing to buy this product. This makes him think that he has become a member of that group and feels identified with the group. To look at it in

another way, when he goes out with his friends and shows the product to the group members, colleagues and relatives will think that he is a person who can use such a good product and has opinion of the product like they have. They find common things between him and themselves so the guy will be easily accepted with a good personal image, which will be called gaining face in Chinese culture. I think this is the main reason why word-of-mouth is so widely considered by the customers in Chinese market.

Also, most of the young generation (see Chapter 2.2.2 & 2.7) are living with their parents and it is also where word-of-mouth marketing takes place, from children to their parents, from parents to relatives, from one colleague to another colleague, from one student to another. Finally, from one mouth, the word can spread out into hundreds and thousands of mouths, and due to the large population in China, there is no reason for the failure of the word-of-mouth marketing strategy. Also I think it is a warning to the companies in Chinese market, that Chinese people are caring more and more about the brand image, brand reputation and quality of the products nowadays. If companies are willing to enter the Chinese market or wanting market growth for the companies which already exist in the market, they need to improve their reputation both for the product and company starting from now.

3.5. Conclusion

For having a market growth of the business, the most important thing to do in Chinese chain catering market is to improve the management (Chapter 3.4.1), provide more convenient services (Chapter 3.4.3) and choose the right marketing strategies (Chapter 3.4.4). This is a market that needs new features and new products. If a company wants to grow bigger, it should always keep its eyes on the trend of the market (Chapter 3.2) instead of not changing at all. A reputation problem of a brand (Chapter 2.2.2) is a big influence on the business in China along with a distinct culture of the company, and the improved management operations are factors which can bring better profit and market growth possibilities as well.

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